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Dear Comrades,

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News of Interest 7th JUNE

MOTIVATIONAL QUOTES

“THERE ARE SOME PEOPLE WHO, IF THEY DON'T ALREADY KNOW, YOU CAN'T TELL 'EM. “
YOGI BERRA

HIGHLIGHTS

- 1. RELIEF FOR GENUINE TRANSACTIONS: ESOPS, M&AS OUT OF CAPITAL GAINS TAX AMBIT**
- 2. RBI MONETARY POLICY: EXPECT NO CHANGE IN INTEREST RATES TODAY, SAY ANALYSTS**
- 3. IOB SEEKS INVESTORS' NOD FOR QIP OF RS 1,300 CRORE**
- 4. BANKS TO START CHARGING FOR P2P PAYMENTS ON UPI**
- 5. TIME FOR SECOND GENERATION REFORMS TO KICK IN: SBI CHIEF**
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Business Standard

1. Relief for genuine transactions: ESOPs, M&As out of capital gains tax ambit

The regulations will only apply to the share purchases that have been done after October 1, 2004

Pavan Burugula

The Central Board of Direct Taxes (CBDT) has provided relief for genuine transactions through which shares were acquired without paying the securities transaction tax (STT).

According to final regulations released on Tuesday, the board provided exemptions for employee stock options (ESOPs) and duly approved mergers and acquisitions (M&As). It also kept shares acquired under the foreign direct investment (FDI) policy out of the ambit of rules on curbing tax evasion through investments in penny stocks.

The tax authority also exempted institutional investors and scheduled banks. The exemption is only for institutions registered as qualified institutional buyers with the Securities and Exchange Board of India (Sebi). The exemption to banks is aimed at keeping shares acquired through debt-equity conversion under a loan restructuring out of the purview of the rules. Only three scenarios will attract capital gains if shares were acquired without paying the STT. The first scenario is when listed shares are acquired through preferential allotment in companies that are not traded frequently on stock exchanges. Typically, these are penny stocks. The tax department is investigating several cases where unaccounted money was used for sham transactions in penny stocks to claim capital gains tax exemption.

Through these regulations, the tax authorities have tightened several loopholes in the capital gains tax regime. "The final guidelines are exhaustive yet simple. They have dispelled every genuine concern. At the same time, the government has cracked the whip on investors who use the long-term capital gains tax exemption to re-route unaccounted money," said Girish Vanvari, partner and national head of tax, KPMG.

The second scenario in which long-term capital gains tax will be applicable is where shares have been acquired outside the stock exchange platform. The third scenario is when an investor buys shares just after a firm is delisted and sells once it relists.

Tax experts said the regulations had provided an exhaustive list of exemptions based on feedback received and these would address all investor concerns.

"The notification has not adversely altered the long-term capital gains provision for sale of listed shares, which is an important tax incentive for the securities markets," said Amit Singhanian, partner, Shardul Amarchand Mangaldas.

However, the final regulations have also left out few types of transactions from the exemption list. These include issue of shares against warrants, inter-se transfer of shares between promoters, strategic acquisitions by private investors. Further, the institutions which are not recognised by Sebi as QIBs will also not get any exemptions. Such institutions include Category III alternate investment funds, investments made by portfolio management services and broad-based funds.

The Union Budget 2017-18 had proposed introduction of anti-abuse provisions and had said the long-term capital gains tax exemption on transfer of shares acquired on or after October 1, 2004, would be available only if the STT was paid at the time of acquisition. However, this move would not have allowed the exemption in several genuine cases where the STT could not have been paid. Subsequently, the CBDT sought opinion from stakeholders and issued the notification today.

The proposed changes will be added to Section 10(38) of the Income Tax Act and will come into effect from April 1, 2017. The regulations will only apply to share purchases after October 1, 2004.

2. RBI monetary policy: Expect no change in interest rates today, say analysts

Finance Minister Arun Jaitley on Monday made a case for cut in interest rates

Press Trust of India

Reserve Bank Governor Urjit Patel- led Monetary Policy Committee (MPC) on Tuesday began its bi-monthly interest rate review amid the government pitching for a reduction in borrowing cost to help push private investments.

Most analysts, however, expect no change in interest rates in view of more than \$60 billion of excess liquidity in the system.

Those seeking a cut in interest rates cite consumer price inflation slowing down to 2.99 per cent in April, economic growth during the last fiscal at its slowest pace in two years and weakest loan demand since at least 1992.

Finance Minister Arun Jaitley on Monday made a case for cut in interest rates, saying inflation has been under control for long and is likely to remain so on the back of good monsoon while there is no likelihood of a spike in oil prices.

"...Growth and investment need to improve. These are indicators which are available. Any finance minister under these circumstances would like a rate cut, the private sector would like a rate cut. But then when you entrusted it with the MPC, I would rather wait for their decision," he had said.

India Inc is also pitching for a rate cut to boost GDP growth that fell to 7.1 per cent in 2016-17 from 8 per cent in the previous fiscal.

However, financial sector experts believe the Reserve Bank will likely maintain status quo at its second bi-monthly monetary policy review of the current fiscal to be unveiled tomorrow as the central bank would like to gauge the impact of GST rollout on inflation.

"Given the inflation trajectory and as the liquidity is enough in the market, it is unlikely that there would be any rate cut this time. I think commentary of the policy will be benign," State Bank of India DMD and Chief Financial Officer Anshula Kant said.

Finance Minister Arun Jaitley had said inflation has been under control for long and is likely to remain so on the back of good monsoon and unlikely spike in oil prices.

"...Growth and investment need to improve. These are indicators which are available. Any finance minister under these circumstances would like a rate cut, the private sector would like a rate cut. But then when you entrusted it with the MPC, I would rather wait for their decision," he had said.

The RBI may wait for the July 1 rollout of the GST and assess the impact of the new indirect tax regime on inflation before tinkering with the policy rates.

"I do not think the RBI will cut repo rate in the upcoming policy. They will wait for CPI data before taking a call. The tone of the policy is likely to be dovish," Union Bank of India executive director Vinod Kathuria said.

The inflation data for July, to be released in August, will give an indication of the impact of Goods and Services Tax (GST) on prices.

Retail inflation, based on Consumer Price Index (CPI), dropped to multi-year low at 2.99 per cent in April over last year, mainly due to lower cost of food items, including pulses and vegetables. CPI inflation was 5.47 per cent in April 2016.

At the same time, inflation based on the wholesale price index slipped to a four-month low of 3.85 per cent in April as both food articles and manufactured items showed cooling in prices.

On April 6, the Reserve Bank had left its benchmark lending rate unchanged at 6.25 per cent for the third monetary policy review in a row, citing upside risk to inflation.

However, experts also feel that RBI will likely strike a less hawkish tone.

The RBI is unlikely to cut rates in its upcoming policy review but the tone of the statement will be less hawkish than the previous one, rating agency ICRA said.

3. IOB seeks investors' nod for QIP of Rs 1,300 crore

The bank's gross amount of NPAs was Rs 30,049 crore at the start of this financial year

T E Narasimhan

Ailing public sector lender Indian Overseas Bank (IOB) has finalised a turnaround strategy, with a focus on bad loan recoveries, credit monitoring, human resource management and development.

The bank is also moving an enabling resolution to raise about Rs 1,300 crore from qualified institutional buyers. Qualified institutional placement (QIP) allows an Indian-listed company to raise capital from its domestic markets without the need to submit any pre-issue filings to market regulators.

The bank has sought investors' nod for the QIP.

R Subramaniakumar, the bank's managing director and chief executive officer, said in a letter to shareholders that the bank has finalised a turnaround strategy to improve operating efficiency and productivity.

IOB's principal focus is on maximising recovery and minimising fresh slippages, as gross non-performing assets (NPAs) stood at Rs 35,098 crore at the end of March 2017.

The bank has made a recovery of Rs 9,014 crore including Rs 803 crore in written-off accounts. NPAs to the extent of Rs 3,629 crore were upgraded during the year. The bank said regional heads were advised to visit borrowers, who have defaulted on loans, at least four days in a week and a 15-member special recovery team has been formed in every region.

A daily recovery report mechanism and outreach programme was introduced wherein all the 434,000 NPA borrowers of up to Rs 1 crore were met personally within a quarter. The gross NPAs stood at Rs 35,098 crore for March 2017 as against Rs 30,049 crore in 2015-16.

The higher provision for NPAs, Rs 7,067 crore, forced the bank to report a net loss of Rs 3,417 crore in FY17, up from the loss of Rs 2,897 crore a year ago.

Financial Express

4. Banks to start charging for P2P payments on UPI

Nearly two years after operationalisation of the Unified Payment Interface (UPI), banks have started moving to charge for peer-to-peer payments on the new platform

By: PTI | Mumbai

Nearly two years after operationalisation of the Unified Payment Interface (UPI), banks have started moving to charge for peer-to-peer payments on the new platform. Country's largest lender State Bank of India has come out with charges with effect from June 1, while the second largest private sector lender HDFC Bank has also gone public with its rate structure which will be effective July 10. "So far, no bank is charging for UPI transactions but at the same time it is at their discretion to levy a reasonable fee towards Person to Person (P2P) transactions for UPI and IMPS," National Payments Corporation of India's chief operating officer Dilip Asbe said in a statement. A senior NPCI official explained that worldwide, charges are levied for such transactions and added that in case of UPI at merchant transactions it is the merchant who pays while for P2P, it is the sender who has to pay. On the transaction

fees front, the critical aspect to be examined is whether there are enough number of transactions happening on UPI which establish a maturity of the platform and also the reasonableness of charges, the official added. The UPI platform is averaging around one crore transactions with a value of Rs 2,900 crore per month, the NPCI official said, adding the number of transactions needs to be at least 2-3 crore per month for the charges to set in.

The NPCI official said there may be a review on the subject, saying there can be a meeting with bankers which can be called in the next two months to assess the situation. It was, however, not immediately clear if the P2P transactions on the BHIM App launched by Prime Minister Narendra Modi, will also be chargeable. When contacted, SBI's deputy managing director Manju Agarwal acknowledged that the bank has put out a circular on UPI charges on its website, but promised to withdraw it soon. "We are not charging for UPI transactions. The circular will be removed," she said.

An HDFC Bank spokesperson was not reachable for comment, but a senior official pointed out that the charges are applicable from July 10 and there may be a review based on the outcome of such a meeting with NPCI. SBI is charging Rs 5 per transaction of up to Rs 1 lakh, Rs 15 for transactions between Rs 1-2 lakh and Rs 25 for those between Rs 2 lakh and Rs 5 lakh, while HDFC Bank is proposing Rs 3 for transactions of up to Rs 25,000 and Rs 5 for those between Rs 25,000 and Rs 1 lakh. Billed as a game changing platform in the Indian banking space, UPI was launched in April 2015 and operationalised in August same year.

Business Line

5. Time for second generation reforms to kick in: SBI chief

OUR BUREAU

Underscoring that the country's growth fundamentals continue to remain intact, State Bank of India, in its annual report said, the time is opportune to take a decision on second generation reforms encompassing vital sectors such as banking, bureaucracy, judiciary and industry.

"Low inflation, good agriculture growth and declining power shortages are indications towards a bright future...The first generation of reforms has completed 25 years and the law of diminishing returns has now set in preventing a full scale revival," it said.

FY18 is expected to be challenging, yet more promising than the previous year primarily because the policy environment is now more predictable, said Chairman Arundhati Bhattacharya. Political stability has increased and this will provide the basis for more bold reforms in the next two years, she said in the bank's annual report.

Bhattacharya observed that asset quality pressures remained elevated during FY17 due to tepid growth in the economy and low capex demand.

"However, the recent ordinance issued by the government to resolve the non-performing asset (NPA) issue by vesting RBI with greater powers is a welcome move in this direction. I expect these issues to be resolved in the next two years, signs of which are evident at this stage," she said.

The promulgation of the Banking Regulation (Amendment) Ordinance, 2017 enables the RBI to direct banking companies to resolve specific stressed assets by initiating insolvency resolution process, where required

The RBI has also been empowered to appoint or approve for appointment, authorities/committees to advise banking companies for stressed asset resolution.

According to the report, measures such as forensic audit in those accounts where there is lack of cooperation, operationalising the commercial division of High Courts, and implementation of bankruptcy code, among others, are also likely to have a positive impact on the asset quality of the banking system.

Challenges ahead

In the coming year, India's economy will have many challenges to surmount, it said, cautioning that the protectionism of the West may constrain the country's ability to cater to export markets.

The report elaborated that the economy's employment generating potential needs a further thrust. Doubling of farm incomes to support the aggregate demand needs to be pursued with full sincerity without hurting financial stability.

Critical infrastructure such as internet connectivity, regional air connectivity, rail connectivity, water conservation and port connectivity need to be pushed on a war footing.

6. Axis Bank's bio-degradable gift card

OUR BUREAU

Axis Bank has launched a bio-degradable plastic card, offering its customers a simple way of contributing towards environment-friendly payment solutions.

The bank, in a statement, said these cards will soon be available on select gift card products and will be acceptable at all domestic merchant outlets and online portals.

These cards offer customers an electronic option for gifting besides also being used as a reward tool for corporates.

With kind regards,

Yours Comradely,



**(N. GOVINDRAJULU)
GENERAL SECRETARY**